



Albemarle Corporation (ALB)

Updated November 11th, 2024 by Nathan Parsh

Key Metrics

Current Price:	\$101	5 Year CAGR Estimate:	-0.1%	Market Cap:	\$11.9 B
Fair Value Price:	\$63	5 Year Growth Estimate:	7.5%	Ex-Dividend Date:	12/13/24
% Fair Value:	160%	5 Year Valuation Multiple Estimate:	-9.0%	Dividend Payment Date:	01/02/25
Dividend Yield:	1.6%	5 Year Price Target	\$90	Years Of Dividend Growth:	29
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Sell

Albemarle is the largest producer of lithium and second largest producer of bromine in the world. The two products account for nearly two-thirds of annual sales. Albemarle produces lithium from its salt brine deposits in the U.S. and Chile. The company has two joint ventures in Australia that also produce lithium. Albemarle's Chile assets offer a very low-cost source of lithium. The company operates in nearly 100 countries. Beginning January 1st, 2023, the company reorganized into the following segments: Energy Storage, Specialties, and Ketjen. Albemarle produces annual sales approaching \$6 billion.

On July 16th, 2024, Albemarle increased its quarterly dividend 1.3% to \$0.405.

On November 6th, 2024, Albemarle reported third quarter results for the period ending September 30th, 2024. For the quarter, revenue decreased 39.4% to \$1.43 billion, but this was \$30 million above estimates. Adjusted earnings-per-share of -\$1.55 compared extremely unfavorably to \$2.74 in the prior year and was \$1.12 less than expected.

Results were impacted by asset write-offs and weaker average prices for lithium. For the quarter, revenue for Energy Storage was down 54.8% to \$767.3 billion. Growth in volume (+16%) was more than offset by lower prices (-71%). Revenues for Specialties were down 2.9% to \$342.4 million as volume (+4%) was offset by a decrease in pricing (-6%). Ketjen sales of \$245 million were lower by 6% from the prior year as higher prices (+2%) only partially offset weaker volume (-8%).

Albemarle reaffirmed its outlook for 2024 as well, with the company still expecting revenue in a range of \$5.5 billion to \$6.2 billion. The decline in revenue will be due to lower prices for lithium. The company still expects average market price for lithium to be approximately \$12 to \$15 per kg, which is down from the Q4 2023 average of \$20. We believe that Albemarle has earnings power of \$3.50 for the year, though actual results will be considerably less than this forecast.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.69	\$3.00	\$5.68	\$3.90	\$5.50	\$6.04	\$4.12	\$4.05	\$22.84	\$22.25	-\$1.48	\$5.02
DPS	\$1.10	\$1.15	\$1.22	\$1.27	\$1.33	\$1.47	\$1.54	\$1.56	\$1.58	\$1.60	\$1.62	\$2.33
Shares¹	78	112	113	111	106	106	106	117	118	117	118	118

Albemarle has experienced very erratic earnings-per-share performance over the last decade. Albemarle has experienced steep drops in profitability in several other years (2012, 2014, 2017 and 2020). This will likely occur in 2024 as well. Earnings-per-share are up 33.2% on average over the last decade, with much of that growth occurring in the last two years. The company also saw a 19% decrease in earnings-per-share during the last recession, before making a new high in 2010. Given the expected low base of earnings-per-share for 2024, we reaffirm our growth outlook of 7.5% from 5.0% as we note the company's leadership positions in the areas of lithium and bromine. Higher demand following a recovery from the COVID-19 pandemic allowed for outsized growth in 2022, but estimates have fallen sharply since due to lower prices for lithium.

¹ In millions of shares

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Albemarle has increased its dividend for 29 consecutive years. Dividends have grown by an average rate of 4.3% over the last ten years.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	38.0	17.8	13.0	29.5	15.6	14.4	25.1	57.7	9.5	9.5	28.9	18.0
Avg. Yld.	1.7%	2.1%	1.7%	1.1%	1.3%	2.0%	1.7%	0.7%	0.7%	1.1%	1.6%	2.6%

Shares of Albemarle have increased \$14, or 16.1%, since our August 3rd, 2024, report. Based on the current share price and earnings power estimates, the stock has a price-to-earnings ratio of 28.9. Albemarle has traded with an average price-to-earnings ratio of more than 23.0 over the last decade. We reaffirm our target valuation of 18 times as we balance the quality of the company and its leadership position in its industry with the volatile nature of the business. EPS is expected to be negative for the year, but analysts see adjusted earnings-per-share of more than \$2 in 2025. If the stock were to trade with our target P/E by 2029, valuation would be a 9.0% headwind to annual returns over this period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

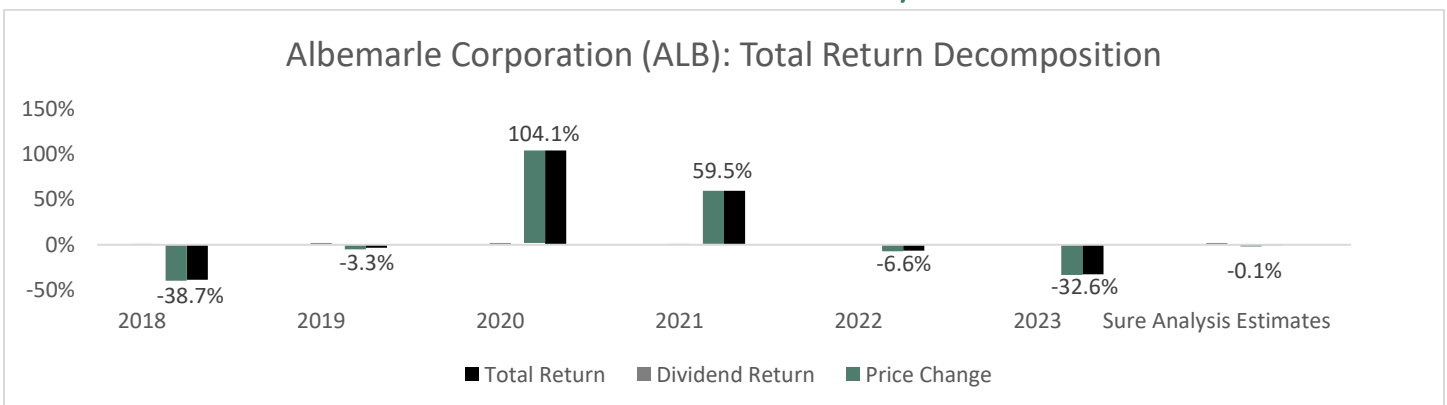
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	65%	38%	21%	33%	21%	24%	37%	39%	7%	7%	46%	46%

Albemarle's earnings-per-share declined almost 20% from 2008 to 2009. The company has also had wild swings in profitability in recent years. Therefore, the company cannot be considered recession-proof. We should note that despite the decreases in earnings, Albemarle's dividend payout ratio has only exceeded 50% once over the last ten years. A key competitive advantage of Albemarle is that it ranks as the largest producer of lithium in the world. The metal is used in batteries for electric cars, pharmaceuticals, airplanes, mining, and other applications. Albemarle is also a top producer of Bromine, which is used in the electronics, construction, and automotive industries. The company possesses a size and scale that competitors will struggle to match.

Final Thoughts & Recommendation

After third quarter earnings, Albemarle is now projected to produce a return of -0.1% annually through 2029, down from our prior estimate of 2.9%. This expected return is based on earnings growth of 7.5% and a starting yield of 1.6% that are more than offset by multiple compression. Albemarle can be a volatile name as seen by results over the last decade and the swings in guidance from quarter-to-quarter. Still, the company is a leader in its industry and produced a solid 2023. That said, lithium pricing is expected to be much lower than last year, which will greatly impact results this year. We reaffirm our five-year price target of \$90 due to earnings power estimates for the year. We also continue to rate shares of the company as a sell due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,446	2,826	2,677	3,072	3,375	3,589	3,129	3,328	7,320	9,617
Gross Profit	771	860	970	1,106	1,217	1,258	995	998	3,075	1,186
Gross Margin	31.5%	30.4%	36.2%	36.0%	36.1%	35.0%	31.8%	30.0%	42.0%	12.3%
SG&A Exp.	355	300	354	450	446	533	430	441	524	919
D&A Exp.	104	260	226	197	201	213	232	254	301	430
Operating Profit	327	471	536	572	701	666	506	502	2,478	181
Operating Margin	13.4%	16.7%	20.0%	18.6%	20.8%	18.6%	16.2%	15.1%	33.9%	1.9%
Net Profit	133	335	644	55	694	533	376	124	2,690	1,573
Net Margin	5.5%	11.8%	24.0%	1.8%	20.6%	14.9%	12.0%	3.7%	36.7%	16.4%
Free Cash Flow	382	133	539	(14)	(154)	(132)	(52)	(609)	646	(824)
Income Tax	18	11	96	432	145	88	54	29	391	430

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	5,223	9,598	8,161	7,751	7,582	9,861	10,451	10,974	15,457	18,271
Cash & Equivalents	2,490	214	2,270	1,137	555	613	747	439	1,499	890
Accounts Receivable	385	398	486	534	606	613	531	557	1,191	1,213
Inventories	358	440	450	593	701	769	750	799	2,076	2,161
Goodwill & Int. Ass.	287	1,844	1,895	2,032	1,953	1,933	2,015	1,907	1,905	1,892
Total Liabilities	3,734	6,197	4,219	3,933	3,823	5,767	5,982	5,169	7,266	8,606
Accounts Payable	232	240	282	419	523	574	483	600	1,534	1,538
Long-Term Debt	2,934	3,817	2,369	1,837	1,705	3,050	3,572	2,394	3,217	4,167
Shareholder's Equity	1,359	3,254	3,795	3,675	3,585	3,932	4,268	5,625	7,983	9,412
LTD/E Ratio	2.16	1.17	0.62	0.50	0.48	0.78	0.84	0.43	0.40	0.44

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.0%	4.5%	7.2%	0.7%	9.0%	6.1%	3.7%	1.2%	20.4%	9.3%
Return on Equity	8.3%	13.7%	17.5%	1.4%	18.3%	13.6%	8.8%	2.4%	38.4%	17.6%
ROIC	3.7%	5.8%	9.5%	0.9%	12.5%	8.5%	4.9%	1.5%	27.4%	12.5%
Shares Out.	78	112	113	111	106	106	106	117	118	117
Revenue/Share	30.92	25.34	23.64	27.34	30.83	33.76	29.29	28.56	62.14	81.66
FCF/Share	4.83	1.19	4.76	(0.12)	(1.41)	(1.25)	(0.48)	(5.23)	5.49	(7.00)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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